Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Local Exchange Carriers' Rates	)	CC Docket No. 94-97, Phase II
Terms, and Conditions for	)	
Expanded Interconnection Through	)	DOCKET FILE COPY ORIGINAI
Virtual Collocation for Special Access	)	
and Switched Transport	)	

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REPLY OF GTE

GTE Service Corporation, on behalf of its affiliated telephone operating companies

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November 22, 1995

THEIR ATTORNEY

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In the Matter of	)	
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Local Exchange Carriers' Rates Terms, and Conditions for Expanded Interconnection Through Virtual Collocation for Special Access and Switched Transport	)))))	CC Docket No. 94-97, Phase II

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REPLY OF GTE

GTE Service Corporation, on behalf of its affiliated GTE telephone operating companies ("the GTOCs"), (collectively, "GTE") respectfully submits its Reply to the Oppositions[1] filed against its Direct Case in the above-captioned tariff investigation with regard to the GTOCs' virtual expanded interconnection service ("EIS").

In the second phase of this tariff investigation, by the *Order Designating Issues for Investigation ("Phase II Designation Order")*, the Commission ordered the Local Exchange Carriers ("LECs") including the GTOCs, to respond to issues with regard to virtual EIS rates, cost components, rate structures, terms and

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1 Specifically, GTE replies to MCI Telecommunications Corporation ("MCI"), MFS Communications Company, Inc. ("MFS"), GST Pacwest Telecom Hawaii, Inc. ("Pacwest") and Time Warner Communications Holdings, Inc. ("Time Warner")

conditions. The GTOCs reply below only to those issues raised against the GTOCs.

GTE strongly disagrees with the parties opposing GTE's virtual EIS rates who argue that any disparity between EIS and DS1 and DS3 rates is unreasonable. Even if EIS and DS1 and DS3 services are comparable, which is still disputed, reasonable differences in pricing mechanisms are permissible. Section 202 of the Communications Act, 47 U.S.C. §202, prohibits only "unreasonable" discrimination. GTE has shown in its Direct Case that the differences in the way EIS is provided, including the lack of GTE investment in the interconnector's equipment, justifies differences in cost recovery mechanisms without unlawfully discriminating between EIS and DS1 and DS3 customers.

Overhead loadings

Despite the fact that GTE has provided in its Direct Case detailed cost support of the EIS offering along with comparable DS1 and DS3 services, Pacwest (at 4) claims GTE has failed to provide critical analysis of its pricing practices. However, GTE has shown that it has been consistent with the application of overhead loadings.

The analysis requested by the FCC asked for comparable DS1 and DS3 services with the lowest overhead loadings. Even though GTE disagrees with the Commission that the lowest overheads for DS1 and DS3 services provides an appropriate comparison, GTE nevertheless has shown that the overheads and rates established for EIS are reasonable and justifiable when compared to the lowest loadings for DS1 and DS3 services.

Pacwest (at 4) challenges GTE's ICB rates arguing that the overhead loadings cannot be identified. Challenges to GTE's ICB pricing, however, are clearly beyond the scope of this docket. Nonetheless, GTE maintains that the overheads provided for its ICB rates are reasonable and compare favorably to the overheads shown in its Direct Case.

Pacwest (at 2) also suggests that GTE's EIS rates and other actions such as lowering rates for competitive intrastate and interstate offerings and proposing other competitive products and services somehow improperly responds to the increasingly competitive market in Hawaii.[2] There is nothing improper in GTE's actions.

Although GTE has lowered competitive intrastate and interstate offerings, these actions have been fully in accordance with regulatory requirements. The current price cap plan adopted in 1990 by the Commission is designed to mirror the efficiency incentives found in competitive markets and has accomplished this by creating incentives for a LEC to set certain rates at lower levels within the price cap bands in order to generate greater usage of its network. GTE has filed limited ICB rates in accordance with the Commission's requirements. Moreover,

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2 Pacwest and other carriers were recently granted authority to provide intrastate voice and data services by the Hawaii Public Utilities Commission opening up a competitive market place. GTE is not precluded from competing to provide services in this market.

GTE's rates for EIS are based on the costs to provision the service. GTE has responded appropriately within regulatory framework to the competitive market.

Nonrecurring Charges

Pacwest (at 5) and MFS (at 11) argue that there is no legitimate reason for the disparate treatment of recovering costs through non-recurring charges for EIS and recurring charges for other High Cap services. GTE believes there are reasonable and legitimate reasons for the different cost recovery mechanisms.

GTE has proposed to recover installation and engineering labor charges associated with EIS services through a non-recurring rate element while High Cap services may recover labor costs partially through monthly-recurring charges. This difference is fully justified. Most High Cap services are provided with a service commitment from the customer and a termination liability. EIS is a month-to-month service with no termination liability. In fact, without a non-recurring charge, GTE would be unable to recover the cost of provisioning the EIS service should the customer terminate within a short time. If there were no nonrecurring charge, the monthly recurring charge would need to be increased to recover the costs associated with installation and engineering labor charges Therefore, it is justifiable for the LEC to recover all of the non-recurring labor costs upfront within a non-recurring charge.

Maintenance Costs

Pacwest (at 6) and Time Warner (at 27) challenge GTE's recovery of maintenance costs for EIS as unreasonable. GTE believes, however, that it has adequately justified the different treatment for EIS. As stated in GTE's Direct Case (at 6-7), a cost recovery mechanism of applying overhead loadings similar to that used for DS1 and DS3 services is not appropriate for EIS because the interconnector, not GTE, is purchasing the equipment directly from the vendor.

Instead, GTE estimated the amount of time required for maintenance on fiber optic terminals. GTE has reasonably projected the cost of maintaining equipment for which GTE has incurred no real capital investment. The analysis provided with the Direct Case allows comparison between GTE's EIS rates for maintenance with comparable services.

Volume and Term Discounts

Pacwest (at 7) and MFS (at 8) argue that the LECs should provide volume and term discounts for EIS comparable to other High Cap services offered by the LECs. The Commission has never required LECs to provide volume or term discounts for EIS and consideration of this issue is clearly beyond the scope of this rate investigation. In addition, the Commission established Rate Adjustment Factors ("RAFs") to adjust EIS rates based upon the comparable DS1 and DS3 services' lowest overhead loading factors. In most instances, these loadings were associated with the services offering volume and term discounts. Therefore, should volume and term discounts be established for EIS services, the EIS rates could not reasonably be discounted from current EIS rate levels, since RAFs have already been applied taking into account comparable DS1 and

DS3 volume and term discount plans. Moreover, there are significant differences which make volume and term discounts inappropriate for EIS.

The costs incurred by the LEC to provision EIS are quite different from the costs to provision High Cap services. Economies of scale with DS1 and DS3 services come from the cost differences in the fiber optic terminals on each end of the fiber cable. For example, an OC48 provides much more capacity per DS3 investment amount than an OC3. Under High Cap offerings, the LEC is purchasing the equipment from the vendor and therefore incurs a capital cost. Under EIS, the interconnector purchases the equipment from the vendor and, accordingly, can benefit from the economies of scale.

The monthly rate elements for EIS are not suited for a volume and term discount structure. The cross-connect element is based on an allocation of costs of a fully utilized DSX patch panels. Increasing the quantity of cross-connects does not lower the per unit costs. Power is provisioned on a per 20 amp increment. Fiber terminals with higher capacity or the addition of fiber terminals to a configuration will result in additional power requirements, so that there is no economy of scale within the provisioning of power. GTE has estimated maintenance requirements to be the same for each type of fiber terminal whether the box is an OC3 or an OC48. Since the maintenance is charged on a per terminal basis there is no economy of scale with increased volumes.

Pacwest (at 7) argues that GTE should be required to establish a comparable rate structure for EIS and DS1 and DS3 services since the components of the service offering are essentially the same. Pacwest ignores, however, the fact that the costs to provision EIS for the LEC is much different, due to capital equipment expenditures, than the costs to provision high cap services. GTE has provided the detailed information in its Direct Case to show that the rate structures for EIS and comparable services are both reasonable and justifiable.

Training Requirements

MFS (at 21) and MCI (at 21) argue that it is excessive for a LEC to require training for more that three technicians per central office. GTE believes that it would be necessary to train four to six technicians on equipment not used by GTE in order to provide the required grade of service to the interconnector. It is reasonable and appropriate to charge the interconnector for this training.

The Commission has required the LEC to provide the same level of service to the interconnector's equipment as the LEC provides to its own like equipment. In order to meet this high standard, sufficient employees must be trained. As stated in its Direct Case (at 18), GTE requires four to six technicians to be trained to support the customer's equipment seven days a week, 24 hours a day. Depending on the location, these four to six technicians may serve a geographic area and may not be required per central office.

Installation, Maintenance and Repair Intervals

MFS (at 24) and MCI (at 22) argue that the LECs should be required to tariff installation, maintenance and repair intervals. As discussed in detail in

GTE's Direct Case (at 21-22), GTE does not believe these intervals should be tariffed.

For each collocation request, GTE informs the customer of the standard intervals required for that service for that particular type of equipment. There are many details of providing access service which are not and should not be specified in the tariff. Tariffing this information for EIS would not provide the interconnector with any additional benefits and would only increase the administrative requirements and burdens. The Commission's complaint process affords the interconnector a remedy should a LEC abuse the process.

Reporting Requirements

MCI (at 24) suggests that LEC reporting requirements should be expanded to require the LEC to report the number of DS1 and DS1 equivalents that have been taken by an interconnector at each central office on a quarterly basis in order to assure that threshold requirements are met prior to the LEC offering volume and term discounts. This request is clearly beyond the scope of this proceeding and is unnecessary.

Prior to a LEC offering of volume and term discounts, the LEC must file in its tariff validating that the threshold for DS1 and/or DS1 equivalents have been met. Providing an additional quarterly report, therefore, is unnecessary. It appears that MCI would like such a report in order to provide it information on how quickly various serving territories are reaching certain thresholds. This is highly competitive and confidential information and should not be provided in order for interconnectors to gain knowledge on how competitive various study areas may be. Additional LEC reporting requirements would be burdensome and unnecessary.

Respectfully submitted,

GTE Service Corporation, on behalf of its affiliated telephone operating companies

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Certificate of Service

I, Judy R. Quinlan, hereby certify that copies of the foregoing "Reply of GTE" have been mailed by first class United States mail, postage prepaid, on the 22nd day of November, 1995 to all parties of record.

Judy R. Quinlan

Judy Q. Quinlan